

Why Washington state can afford high benefits to workers and low costs to employers

It is estimated that Washington state saves \$755 million a year compared to a typical U.S. workers' compensation insurer. These savings allow Washington state to afford high benefits while keeping costs low.

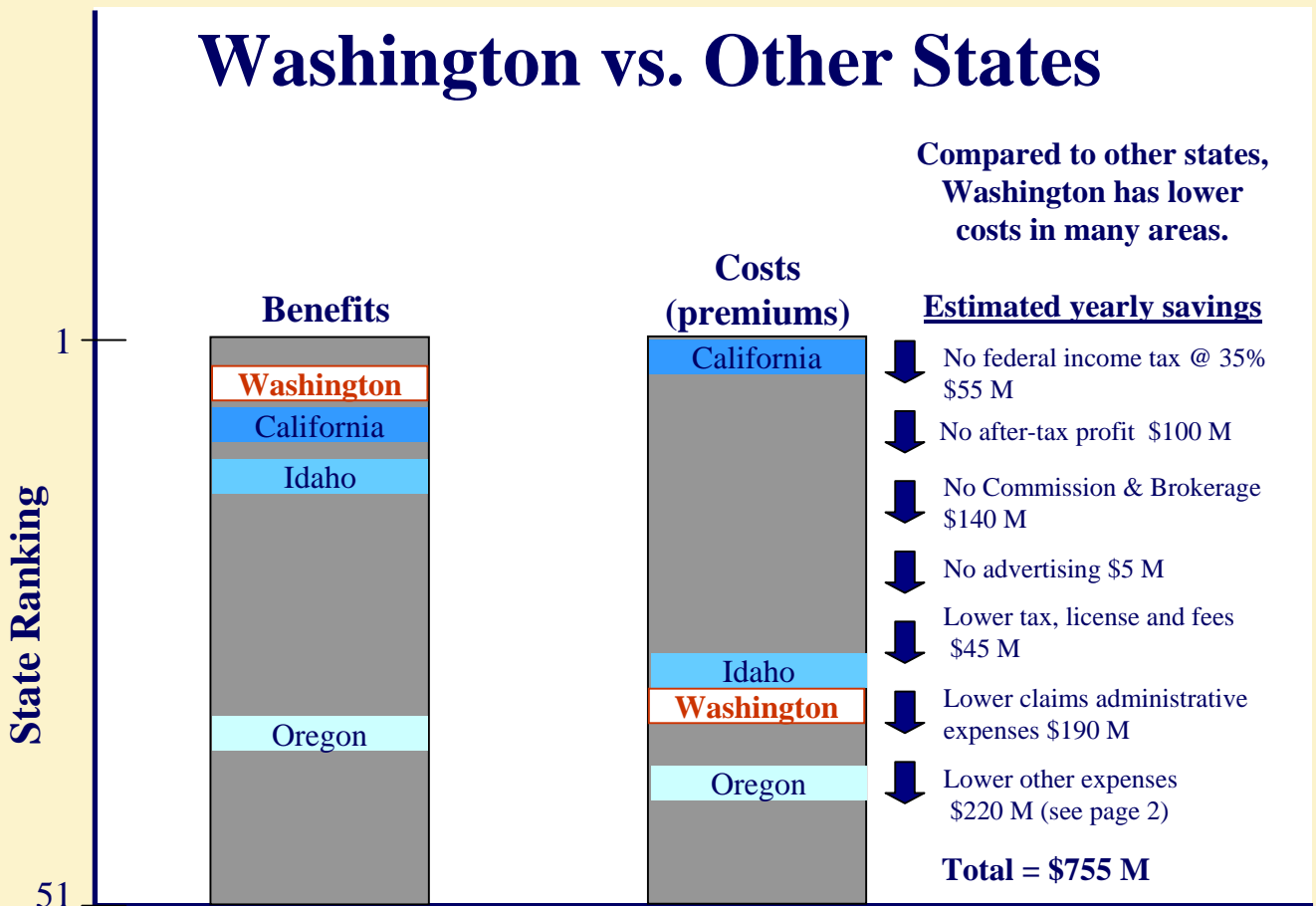
High benefits

In benefits paid to workers Washington ranks fourth in the nation (*Most recent ranking, National Academy of Social Insurance 2001*).

Low costs

In 2004, Washington ranked 35th in the nation in costs to employers and workers¹ (*Oregon Dept. of Consumer & Business Services*).

¹ Workers pay 27.6% of premiums.



How savings are estimated

Savings estimates are based on the years 1993 to 2002 as measured by the difference in profit and expenses between the insurance industry and the Washington State Fund. Industry data is from 2003 A.M. Best's *Aggregate and Averages*.

Process and Assumptions:

- 1) Assumes industry wrote business with the same losses incurred as the State Fund in FY 2003 (Washington State Fund losses incurred in FY 2003 = \$1,438 M).
- 2) Uses the 10-year average for 1993 to 2002 to obtain the expense ratios per losses incurred.
- 3) Compares this to the State Fund average for fiscal years 1994 to 2003 per losses incurred.
- 4) Assumes that the State Fund had no advertising costs.
- 5) Industry advertising and tax, license and fees based on 2002 only.

Difference in profit and expenses between insurance industry and Washington State Fund (in \$ Millions)

	U.S. WC industry (% of loss)	Wash. State Fund (% of loss)	Difference (% of loss)	Difference applied to FY 2003 losses
Profit				
Federal income tax @ 35%	4.0%	0.0%	4.0%	\$55
After-tax profit	7.4%	0.4% ¹	7.1%	\$100
<u>Administrative expense</u>				
Commission & brokerage	9.6%	0.0%	9.6%	\$140
Advertising	0.5%	0.0%	0.5%	\$5
Tax, license and fees	6.7%	3.5% ²	3.2%	\$45
Claims administrative expense	21.2%	8.1%	13.1%	\$190
Other expenses ³	19.0%	3.7%	15.3%	\$220
			Total	\$755

¹ L&I's goal is to operate at 0% profit. For this period, L&I was 0.4% above this goal.

² For L&I, tax, license and fees includes expenses for the Board of Industrial Insurance Appeals, University of Washington Research, WISHA, Specialty Compliance, etc.

³ Other expenses include premium collection, underwriting, research, and marketing.

Industry data from 2003 A.M. Best's *Aggregate and Averages*.